ATLANTIC PROVINCES ECONOMIC COUNCIL | CONSEIL ÉCONOMIQUE DES PROVINCES DE L'ATLANTIQUE

Commentary

Federal Budget 2013: Highlights for Atlantic Canada

The Conservative government's 2013 budget, entitled Economic Action Plan 2013, was short on major new fiscal initiatives with several funding programs or tax incentives extended for varying durations. The government is maintaining its commitment to eliminate the deficit by 2015/2016 as weaker expectations for real GDP growth in 2013 are offset by stronger growth between 2014 and 2017. Nominal GDP, a key measure of the tax base, is $20 billion lower on average through 2017 than last fall's Economic and Fiscal Update, but debt service costs are also projected to be lower.

The budget was built around several themes including: connecting Canadians with jobs; infrastructure spending; support for manufacturers and businesses; and research and innovation. While some of these initiatives will benefit Atlantic Canada, there was nothing to strengthen economic growth specifically in this region.

Training

The Budget announced the creation of the Canada Job Grant which could provide $15,000 or more per person to provide short-duration training at eligible training institutions for unemployed or underemployed Canadians. The federal government will provide $5,000 with matching funding to be provided by employers and provinces/territories. There will be reforms of the existing Labour Market Agreements (LMAs), which were due to expire next year and currently provide $500 million annually to the provinces to provide training and employment services to individuals who do not qualify for Employment Insurance (EI). The new federal job grant will amount to $300 million annually by 2017/2018 with the remaining $200 million continuing to be transferred to the provinces/territories. The government indicated its intention to renegotiate along similar lines the Labour Market Development Agreements, in which the federal government transfers money to the provinces to provide training and employment supports for individuals claiming EI.

While providing greater incentives for employers to be more engaged in training, and to ensure support is focused on labour market needs are positive steps, the details of the new grant still

have to be worked out in negotiation with the provinces/territories and in consultation with employers, educational institutions and labour organizations. LMA funding is currently allocated on a per capita basis but it is not yet clear how the grants will be allocated, and appear to be open to all unemployed individuals, whether they are on EI or not. The new grant is focused on short-term formal training. While this will help some individuals gain the skills they need to be re-employed, individuals who need on-the-job training will not benefit. More importantly, the grant does not address the broader skills mismatch issue. It will not do anything to help employers who need more qualified skilled trades people, health professionals and other highly skilled individuals. Neither is it likely to help unemployed Canadians who need literacy training and longer term interventions or the 50-year old manufacturing worker in rural Canada who needs to retrain for a whole new career and/or support to move to a new location where jobs are more abundant.

The government also announced a new generation of Labour Market Agreements for Persons with Disabilities. According to the Participation and Activity Limitation Survey, in 2006 there were 230,000 Atlantic Canadians aged 15 to 64 years who had a disability, but only 51% of them participated in the labour market, compared with 78% for those without a disability.[1]

The small business hiring credit will be expanded and extended by a further year, to support job creation, by helping to defray the cost of hiring new workers. This temporary credit will provide up to $1,000 against a small firm's increase in its 2013 Employment Insurance (EI) premiums over those paid in 2012, to employers with total EI premiums of $15,000 or less in 2012 (the previous threshold was $10,000). The government estimates it will save 560,000 small businesses across Canada $225 million. Based on Statistics Canada's Business Register data for firms with one to four employees, Atlantic Canada has 6.9% of the firms in Canada of this size, suggesting small businesses in the Atlantic region will save $15.6 million.

Infrastructure

The budget announced $53 billion in infrastructure funding over 10 years starting in 2014/2015 under a new Building Canada Plan. The overall spending commitments are in line with the previous plan. The largest component is the Community Improvement Fund ($32.2 billion) which includes the renewal of the Gas Tax Fund ($21.8 billion) over 10 years and the GST rebate for municipalities ($10.4 billion). Municipalities will receive $2.9 billion in 2014/2015 from the two initiatives (including $2 billion from the Gas Tax Fund) which grows to $3.6 billion by 2023/2024. Atlantic municipalities currently receive about $147 million annually from the Gas Tax Fund. Previously the Gas Tax Fund was targeted at green initiatives including upgrading water and wastewater systems and reducing emissions. The list of existing eligible investment categories will now be expanded to include: highways, other transportation initiatives, broadband and connectivity, tourism, sport and recreation.

[1] APEC (2012). *Meeting the Skills Challenge: Five Key Labour Market Issues Facing Atlantic Canada.* Halifax: APEC, p. 47.

There is also $14 billion for a new Building Canada Fund to support major economic projects but the majority of that funding is targeted for later in the decade. There is still $6 billion in federal support for provinces and municipalities under current infrastructure programs to be spent. The P3 Canada Fund was renewed and will provide $1.25 billion over five years to support public-private partnerships.

In addition to the $53 billion under the Building Canada Plan, there is $7 billion over 10 years for First Nations infrastructure and $10 billion for federal infrastructure assets. The most notable for Atlantic Canada is the Small Craft Harbours Program which provides $450 million nationally over five years.

Manufacturing and Innovation

The government is extending the accelerated Capital Cost Allowance (CCA) rate for machinery and equipment investment for manufacturing and processing by two years, which will save manufacturers $1.4 billion over four years. According to Statistics Canada data, over the period 2011 to 2013 Atlantic Canada will account for 7.5% of manufacturing capital investment in machinery and equipment. This suggests that the extension of accelerated CCA will save Atlantic Canadian manufacturers $105 million over four years.

The Atlantic region will see little or no benefit from a number of other programs to help the manufacturing sector, including the $200 million over five years for a new Advanced Manufacturing Fund in Ontario. The Strategic Aerospace and Defence Initiative (SADI) will receive stable funding of $1 billion over the next five years but none of the 25 approved projects to date were in Atlantic Canada. Budget 2013 will provide $110 million over four years, beginning in 2014/2015, and $55 million annually thereafter, for the creation of an Aerospace Technology Demonstration Program. The budget provides $325 million over eight years to Sustainable Development Technology Canada (SDTC), lower than the previous funding of $590 million over ten years. However, Atlantic Canada only received $73 million over the last ten years (3.5% of the national total).

The federal Labour-Sponsored Venture Capital Corporations (LSVCC) tax credit will be phased-out over the next four years. It was introduced in the 1980s when access to venture capital for small- and medium-sized businesses was limited. This phase-out aligns with the recent creation of the $400-million Venture Capital Action Plan. It is unclear how this will impact on provincial LSVCC tax credits or whether provinces will eliminate their LSVCC tax credits also.

Other Industry Initiatives

About $58 million will be spent over five years to streamline the aquaculture regulatory regime, and to report on the environmental and economic performance of the sector. The aquaculture industry is worth over $350 million in Atlantic Canada. The 15% mineral exploration tax credit was renewed for another year to help stimulate exploration by junior mining

companies. Canada's forest sector will continue to receive funding for forestry innovation and market development, amounting to $92 million over two years starting in 2014/2015.

The existing lifetime capital gains exemption for farmers and fishers is being increased from $750,000 to $800,000 and is expected to save farmers and fishers $110 million over five years when they transfer capital assets. Based on Atlantic Canada's share of the national gross capital stock for these industries of 6.3% in 2012, this suggests Atlantic Canadian farmers and fishers will save $7 million over five years.

Fiscal Outlook

The budget projects a $25.9 billion deficit for 2012/2013, a $0.1 billion improvement from the Fall Economic Update. The deficit for 2013/2014 is projected to be $18.7 billion or 1.0% of nominal GDP, with the government forecasting a return to surplus by 2015/2016.

A weaker economic outlook will reduce budgetary revenues by $8.1 billion over the next five fiscal years versus the Fall Economic Update. Nominal GDP is forecast to grow 3.3% in 2013 versus 4.0% in the Fall Economic Update. This one-time drop reduces tax revenues over the medium-term.

Program spending over the next five fiscal years is $12 billion lower in Budget 2013 versus the Fall Economic Update. To ensure a return to balance the government is reducing direct program expenses by $5.6 billion over the next five fiscal years versus the Fall Economic Update. There is also a decline in the cost of transfers to the elderly and to children due to a lower forecast for inflation (1.3% in 2013 versus the previous forecast of 2.0%) - these benefits are indexed to inflation.

Some of the reductions in direct program expenses will be the result of planned job reductions announced in Budget 2012. Budget 2012 committed to reduce federal employment by 19,200 jobs or 4.8% of federal employment nationally over three years. Based on Budget 2013, as of December 31, 2012, 16,220 federal jobs were eliminated, of which 9,390 were achieved through attrition. According to the Public Service Alliance of Canada, as of March 4, 2013, 19,770 federal civil servants have received workforce adjustment notices saying they could lose their jobs, including 2,232 federal workers in Atlantic Canada or 11.3% of the notices issued in Canada.